

**MISSOURI PUBLIC ENTITY
RISK MANAGEMENT FUND**

FINANCIAL STATEMENTS WITH
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017

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Independent Auditor's Report

Board of Trustees
Missouri Public Entity Risk Management Fund
Jefferson City, Missouri

Report on the Financial Statements

We have audited the accompanying basic financial statements of Missouri Public Entity Risk Management Fund ("MOPERM"), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MOPERM as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brown Smith Wallace, LLP

St. Louis, Missouri
March 20, 2018

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Missouri Public Entity Risk Management Fund ("MOPERM") offers this narrative overview and analysis of the financial activities of MOPERM for the years ended December 31, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with MOPERM's financial statements and notes to the financial statements to enhance their understanding of MOPERM's financial performance.

Fund Accounting

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a body corporate and politic created by the Missouri General Assembly, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MOPERM is considered to be a related party but not a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds, and fiduciary funds. MOPERM's funds are considered proprietary funds.

Proprietary Funds

Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers for the provision of goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: enterprise fund. MOPERM's purpose is to provide liability and property coverage to participating public entities, their officials, and employees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MOPERM's financial statements. Typically, governmental entity's financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, as MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail; we do not present government-wide financial statements as the information would be repetitive.

Overview of the Financial Statements (Continued)

The financial statements, in addition to management's discussion and analysis, are comprised of the statements of net position; the statements of revenues, expenses and changes in net position; the statements of cash flows, and the notes to financial statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The statement of net position presents MOPERM's financial position as of year-end. Information is displayed on assets and liabilities, with the difference between the two reported as net position. The net position of MOPERM reflect the resources available as of the end of the year to pay claims of participants when due. Over time, increases and decreases in net position measure whether MOPERM's financial position is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information detailing the revenues and expenses that resulted in the change in net position that occurred during the current year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for transactions that will not result in cash flows until future periods. For example, contributions due from a public entity, even though not yet paid by year end, will be reflected as revenue. Likewise, claims that occurred during the year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the year.

The statement of cash flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end of year cash balances contained in the statement of net position. The effects of accrual accounting and noncash activities, such as depreciation, are adjusted to supplement the presentation in the statements of revenues, expenses and changes in net position.

The notes to financial statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented illustrating MOPERM's past 10 years of earned revenues and investment income compared to related costs of loss and other expenses incurred by MOPERM.

Financial Analysis

The following tables present the summarized financial position and results of operations for the years ended December 31, 2017, 2016, and 2015. Additional details are available in the accompanying financial statements.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Cash and investments	\$ 124,688,304	\$ 127,756,125	\$ 124,313,403
Receivables	720,818	692,670	539,503
Capital assets	804,405	880,136	1,011,416
Deferred outflow of resources	575,936	639,404	370,208
Other	<u>609,978</u>	<u>10,053</u>	<u>17,765</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 127,399,441</u>	<u>\$ 129,978,388</u>	<u>\$ 126,252,295</u>
LIABILITIES			
Loss and loss adjustment expense	\$ 69,800,445	\$ 53,584,795	\$ 44,808,742
Net pension liability	1,720,313	1,579,883	1,138,251
Deferred inflow of resources	132,901	162,553	205,289
Other	<u>10,291,086</u>	<u>11,763,803</u>	<u>11,586,793</u>
Total Liabilities and Deferred Inflow of Resources	81,944,745	67,091,034	57,739,075
NET POSITION			
Net investment in capital assets	804,405	880,136	1,011,416
Unrestricted	<u>44,650,291</u>	<u>62,007,218</u>	<u>67,501,804</u>
Total net position	<u>45,454,696</u>	<u>62,887,354</u>	<u>68,513,220</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 127,399,441</u>	<u>\$ 129,978,388</u>	<u>\$ 126,252,295</u>

MOPERM was established to offer liability protection to participating public entities, their officials, and employees. Property and crime coverages were added in 2003; cyber & information breach coverage was added in 2017. MOPERM has been providing member entities with broad coverages at stable and economical rates. In 2003, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members. MOPERM increased its overall membership by 11 members in 2017, while for 2016 and 2015 the membership increased by 12 and 23 members. With the net increase in members and a rate increase, MOPERM picked up an increase in contribution of \$853,347 in 2017 as compared to an increase of \$148,000 in 2016 and \$535,000 in 2015. Total assets decreased in 2017 by \$2.6 million, but increased during 2016 and 2015 by approximately \$3.7 million, and \$1.3 million, respectively. Cash and investments decreased in 2017 by approximately \$3 million, while it increased approximately \$3.4 million and \$1.0 million, in 2016 and 2015. Capital assets have decreased in the past three years due to assets being fully depreciated and no new large assets being purchased. Receivables increased in 2017, 2016 and 2015 by \$28,148, \$153,167 and \$71,000, mainly because of the change in accrued interest receivable on investments and deductible billings. Other Assets had a huge increase of \$599,925 in 2017, due to the purchase of liability reinsurance in October 2017.

Financial Analysis (Continued)

- With the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB Statement No. 27, deferred outflow of resources of \$575,936, \$639,404 and \$370,208 presented deferred outflow for pension contributions made and expensed during the fiscal year ended December 31, 2017, 2016 and 2015, respectively. For 2017, 2016 and 2015, deferred inflow of resources of \$132,901, \$162,553 and \$205,289, respectively, presented differences between expected and actual experiences on investment earnings as well as changes in actuarial assumptions. As of December 31, 2017, 2016 and 2015, MOPERM's share of the Missouri State Employees Retirement System (MOSERS) net pension liability was \$1,720,313, \$1,579,883 and \$1,138,251, respectively. MOPERM's initial year of adoption of GASB 68 was the year ended December 31, 2015.
- Total liabilities increased by \$14.8 million in 2017. This increase is due to the adverse development in loss and loss adjustment expense for all lines of business except property. The largest adverse development in losses was in Law Enforcement, Errors and Omissions, Employment Practices and General Liability. In 2016, total liabilities increased by \$9.4 million. This increase was due to the adverse development in loss and loss adjustment expense with the majority relating to several class action suits in St. Louis County. A similar class action suit brought against a city in the St. Louis metropolitan area settled for \$4.7 million during the early resolution process. This early resolution, of this related lawsuit has set precedent for other municipalities with similar potential liabilities. MOPERM has 33 member entities in St. Louis County. Loss and loss adjustment expense in the law enforcement line of business accounted for the next largest increase of the adverse development in 2016. In 2015, total liabilities decreased by \$2.8 million with the biggest decrease in loss and loss adjustment expenses (as a result of re-estimation of IBNR). MOPERM reserves are reviewed annually by an independent actuary. MOPERM has no long-term debt.
- The change in net position for 2017 and 2016 decreased by \$17.4 million and \$5.6 million, respectfully. The large decrease in net position for 2017 and 2016 is due to the \$17.9 million and \$4.7 million net loss resulting from the adverse development in liability loss reserves at December 31, 2017 and 2016. During 2016, the Board of Trustees approved a staff proposal for refunds to members in the amount of \$984,000. These amounts were accrued on the statement of net position as a retro return reserve refunds payable for the year ended December 31, 2016. During 2017, the Board of Trustees reduced that refund amount to \$467,877 as a result of changes in circumstances and new information available to both the Board of Trustees and MOPERM's management. The change in total net position for 2015 increased by approximately \$3 million, which included a \$1 million refund to members. Operating income had been approximately \$5 million in 2015 and for several years prior, but the adverse development in loss reserves over the past two years has caused net losses in 2017 and 2016. Since its inception, MOPERM has refunded approximately \$12.7 million of contributions to the participating members.

Financial Analysis (Continued)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES			
Contributions	\$ 21,063,094	\$ 20,209,747	\$ 20,062,024
Investment income	2,544,257	2,299,022	1,929,309
Other income (expense)	<u>-</u>	<u>5</u>	<u>65</u>
Total operating revenues	23,607,351	22,508,774	21,991,398
EXPENSES			
Loss and loss adjustment expense	39,867,517	23,144,242	12,179,497
Excess insurance premiums	2,522,207	1,700,131	1,916,934
General and administrative	<u>3,395,614</u>	<u>3,176,652</u>	<u>3,051,943</u>
Total operating expenses	<u>45,685,338</u>	<u>28,021,025</u>	<u>17,148,374</u>
Operating income	(22,077,987)	(5,512,251)	4,843,024
Nonoperating revenue (expenses):			
Unrealized gain (loss) on investments	<u>4,177,452</u>	<u>804,892</u>	<u>(55,064)</u>
Changes in net position	(17,900,535)	(4,707,359)	4,787,960
Total net position beginning of year	<u>62,887,354</u>	<u>68,513,220</u>	<u>64,742,319</u>
Refunds to members, net refunds returned	<u>467,877</u>	<u>(918,507)</u>	<u>(1,017,059)</u>
Total net position, end of year	<u>\$ 45,454,696</u>	<u>\$ 62,887,354</u>	<u>\$ 68,513,220</u>

- In 2017 and 2016, contributions increased by \$853,000 and \$148,000, with the majority of the increase to liability contributions. Eleven new members were added in 2017 and 12 new members were added in 2016. In 2017, MOPERM increased Law Enforcement and Employment Practice line of business base rates, with little change to property rates. In 2017, MOPERM added a Cyber line of coverage and purchased reinsurance. Liability base rates increased by 3.2% in 2016, which included changes to deductible relativities for all liability coverages other than auto. A new crime rate structure was developed and MOPERM retains all losses for crime coverage beginning in 2016. The effect of the new crime rate structure was an approximate 20% reduction in gross crime premiums. Property deductible relativities were also updated and property base rates were reduced by 2%. In 2015, contributions increased by \$535,000, with the majority of the increase to property contributions of \$375,000. MOPERM added 23 new member to the fund and the base rates remained relatively the same. There was only a slight decrease in property base rates.

Financial Analysis (Continued)

- The performance on the Fixed Income Portfolio over the past 12 months was 1.87% with a 1.75% return since inception date of December 2014. There was a 22.64% return for the past 12 month on the Multi-Asset Class Portfolio and a 10.53% return since the inception date of August 2015. In 2017, an additional five million of contributions collected was added to the surplus multi-asset class portfolio. In 2016, \$10 million from the fixed income account was moved into the surplus multi-asset class portfolio. In June 2015, MOPERM's Board of Trustees amended the existing investment policy to include a multi-asset class portfolio permitting investments in equities. Six million of the fixed income surplus asset class was transferred to the multi-asset class portfolio in July of 2015. Investment income consists of interest income, amortization of premium and discounts, and realized gains and losses on securities. In 2017 and 2016, investment income increased by approximately \$245,000 and \$370,000, respectively. MOPERM ended 2017 and 2016, with \$4.2 million and \$805,000 in unrealized gain on investments. In 2015, investment income decreased by \$323,000 and MOPERM ended the year with a \$55,000 unrealized loss.
- In 2017 and 2016, there was a \$16.7 million and \$11 million increase in loss and loss adjustment expense. These large increases in loss were due to the adverse development in the liability lines of coverage of Law Enforcement, Employment Practices and Error and Omissions. Also contributing to the large loss increase is a series of class action law suits filed in the St. Louis metropolitan area. There was a slight increase in loss and loss adjustment expenses in 2015. Actual loss and loss expenses paid in 2017, was \$25 million, while 2016 and 2015, were about \$14 million. The increases and decreases in loss and loss adjustment expense consisted of actual paid claims and the change in case and IBNR reserves.
- Excess insurance premiums increased by \$822,000 in 2017. This increase is due to the purchase of excess coverage for the liability lines of business. MOPERM's liability lines of business have been self-insured since 2002. Excess insurance premiums decreased by \$217,000 in 2016, due to the rate reduction. In 2015, excess insurance premiums increased by \$64,500, even though the excess rates decreased slightly, due to the large increase in total insured value. The excess insurance ceded premium for property increases/decreases, as members are added, non-renewed, and/or cancelled.
- Effective for the year ended December 31, 2016, MOPERM adopted GASB Statement No. 72, Fair Value Measurement and Application, which intends to improve financial reporting by requiring governments to account and report utilizing a consistent and more detailed definition of fair value and accepted valuation techniques. Adoption resulted in additional note disclosures in Note C to display investments by the category of measurement hierarchy. Effective for the year ended December 31, 2015, MOPERM adopted GASB 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB Statement 27, beginning net position was adjusted by \$959,730 for the net pension liability and the beginning of fiscal year 2015.

Financial Analysis (Continued)

- In 2017, general and administrative expenses totaled 17% of contribution earned, resulting in a 2% increase, due to the fees associated with the purchase of liability excess insurance. General and administrative expenses approximated 15% of total contributions earned for 2016 and 2015, respectively. Commission expense comprises approximately 50% of total general and administrative expenses.

Financial Summary

In 2017, MOPERM had an increase in its overall membership and increased its contribution by \$853,347. MOPERM had a rate increase in Law Enforcement and Employment Practice lines of business, with Property rates staying about the same. There was a total of 954 entities that contributed to the pool in 2017 compared to 940 participating members in 2016.

MOPERM ended the 2017 year with a net loss of \$17.9 million. Over the past several years, MOPERM has experienced some adverse development in its liability lines of business, with Law Enforcement, Employment Practices, and Errors and Omissions being the most affected. The Board of Trustees did not declare a refund for 2017. General and administrative expenses increased in 2017 due to costs associated with the purchase of liability reinsurance that was effective October 1, 2017. MOPERM has been self-insured for the liability lines of business since 2002. Total net position decreased by approximately \$17.4 million in 2017, totaling approximately \$45 million at December 31, 2017.

Economic Environment and Next Year's Budget and Rates

Since 1987, MOPERM has been a competitive alternative for local government agencies seeking to manage rising coverage costs against growing exposures and tight budgets. Rates are analyzed by an actuary each year and rate recommendations are made to management. Management analyzes the actuary's rate recommendations and suggests rate changes based on actual loss experience and the current insurance market.

There was a 10% increase in the 2018 estimated contribution. This increase was projecting the impact of a 15% increase in liability rates with property rates remaining the same. The budgeted increase is anticipating the loss of some MOPERM members. Due to the adverse development from the actuary study at December 31, 2017, in the liability lines of business, MOPERM may need to reevaluate the total loss and loss expense that was budgeted for 2018. General and administrative expenses are budgeted for a 6% increase. For 2018, Excess Insurance Premium was budgeted to increase by 67%. Even though there was a decrease in property excess rates, there was an increase in excess cost. The increase in liability excess cost is the result of purchasing a full year of coverage for all of the liability lines of business. The total of general and administrative expenses including the excess insurance premiums are approximately 34% of total budgeted contribution.

Contacting MOPERM's Financial Management

This financial report is designed to provide MOPERM members and the public with a general overview of MOPERM's finances. If you have questions about this report or need additional financial information, contact the Fiscal Manager, Cathy Schulte, at P.O. Box 7110, Jefferson City, MO 65102, (573)751-1266 ext. 114 or e-mail Cathy-Schulte@moperm.com.

Basic Financial Statements

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statements of Net Position

December 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 10,643,217	\$ 11,765,113
Short-term investments, at fair value	2,290,317	12,650,315
Investments in trading securities, at fair value	111,754,771	103,340,697
Deposits and accounts receivable other than contributions	279,985	148,533
Accrued interest receivable	438,377	542,064
Contributions in the course of collection	2,455	2,073
Prepaid expenses	609,978	10,053
Total Current Assets	126,019,100	128,458,848
Noncurrent Assets		
Capital assets (net of accumulated depreciation of \$1,208,026 in 2017 and \$1,128,533 in 2016)	804,405	880,136
Deferred Outflow of Resources	575,936	639,404
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 127,399,441	\$ 129,978,388
LIABILITIES AND NET POSITION		
Current Liabilities		
Advance contributions	\$ 10,099,208	\$ 10,567,045
Retro return reserve refunds payable	-	983,698
Accounts payable and accrued expense	191,878	213,060
Total Current Liabilities	10,291,086	11,763,803
Noncurrent Liabilities		
Loss and loss adjustment expenses reserves	69,800,445	53,584,795
Net pension liability	1,720,313	1,579,883
Total Noncurrent Liabilities	71,520,758	55,164,678
Deferred Inflow of Resources	132,901	162,553
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	81,944,745	67,091,034
Net Position		
Net investment in capital assets	804,405	880,136
Unrestricted	44,650,291	62,007,218
Total Net Position	45,454,696	62,887,354
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 127,399,441	\$ 129,978,388

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2017 and 2016

	2017	2016
Revenues		
Contributions	\$ 21,063,094	\$ 20,209,747
Investment income	2,544,257	2,299,022
Other income	-	5
Total operating revenues	23,607,351	22,508,774
Expenses		
Losses and loss adjustment expenses	39,867,517	23,144,242
Excess insurance premiums	2,522,207	1,700,131
General and administrative	3,295,614	3,176,652
Total operating expenses	45,685,338	28,021,025
Operating loss	(22,077,987)	(5,512,251)
Nonoperating expenses		
Unrealized gain on investments	4,177,452	804,892
Change in net position	(17,900,535)	(4,707,359)
Total net position, beginning of year, adjusted	62,887,354	68,513,220
Refunds to members, net (see Note G)	467,877	(918,507)
Total net position, end of year	\$ 45,454,696	\$ 62,887,354

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Contributions collected	\$ 20,594,875	\$ 20,454,081
Loss and loss adjustment expenses paid	(23,783,320)	(14,419,508)
Payments to suppliers and excess insurer	(5,556,018)	(3,858,357)
Payments to employees	(629,190)	(733,439)
Investment income received	2,711,370	2,521,839
Other income	-	5
Net cash provided by (used in) operating activities	(6,662,283)	3,964,621
Cash flows used in non-capital financing activities:		
Refunds paid to members	(515,821)	(997,153)
Cash flows used in capital and related financing activities:		
Purchases of capital assets	(3,761)	(4,592)
Cash flows from investing activities:		
Proceeds from investments	67,293,218	76,619,811
Purchase of investments	(61,233,249)	(80,244,149)
Net cash provided by (used in) investing activities	6,059,969	(3,624,338)
Change in cash and cash equivalents	(1,121,896)	(661,462)
Cash and cash equivalents, beginning of year	11,765,113	12,426,575
Cash and cash equivalents, end of year	\$ 10,643,217	\$ 11,765,113
Reconciliation of net operating income to net cash provided by operating activities:		
Net operating loss	\$ (22,077,987)	\$ (5,512,251)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation and amortization	79,493	135,872
Pension expense, net of contributions	174,228	130,065
Accretion of discounts and amortization of premiums, net	248,980	431,016
Realized gain on investments	(185,554)	(106,335)
Changes in certain assets and liabilities:		
Increase in deposits and accounts receivable other than contributions	(131,453)	(51,319)
Decrease (increase) in accrued interest receivable	103,686	(101,864)
(Increase) decrease in contributions in course of collection	(382)	16
(Increase) decrease in prepaid expenses	(599,925)	7,712
Increase in loss and loss adjustment expense reserves	16,215,650	8,776,053
(Decrease) increase in advance contributions	(467,837)	244,318
(Decrease) increase in accounts payable and accrued expenses	(21,182)	11,338
Net adjustments	15,415,704	9,476,872
Net cash provided by (used in) operating activities	\$ (6,662,283)	\$ 3,964,621
Schedule of noncash investing, capital, and financing activities:		
Increase in fair value of investments	\$ 4,177,452	\$ 804,892

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements

December 31, 2017 and 2016

Note A – Reporting Entity

The Missouri Public Entity Risk Management Fund (“MOPERM”) is a corporate and political body created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for the employment of MOPERM’s employees and appointing some of the members of the Board of Trustees, the State’s accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Section 537.700, RSMo, and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. MOPERM had a total of 954 and 940 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2017 and 2016, respectively.

MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

Note B – Basis of Accounting Summary of Significant Accounting Policies

Basis of Accounting

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit, overnight repurchase agreements (“Investaccount-Government” securities), money market index funds (“Government Obligation Fund-Money Market”), and investments with original maturities of three months or less. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution’s trust department or agent in MOPERM’s name. The carrying amounts reported in the statements of net position approximate the fair value of these instruments.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Investments

MOPERM reports investments as trading assets at fair value, with the changes in fair value reported in the statements of revenues, expenses and changes in net position. The estimated fair value of fixed maturity and equity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations using the specific cost identification methodology.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets:

	<u>Depreciable Life</u>
Automobiles	3 years
Computer equipment and software	3-5 years
Equipment	5 years
Furniture and fixtures and building improvements	5-10 years
Building	40 years

Impairment of Capital Assets

MOPERM evaluates whether events and circumstances have occurred that indicate that the remaining estimated useful life of capital assets may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. In the opinion of management, no such impairment existed at December 31, 2017 and 2016.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Equity Classifications

Net position represents the difference between assets and liabilities. MOPERM reports three categories of net position, as follows:

Net investment in capital assets - Consists of property and equipment at cost, net of accumulated depreciation.

Restricted net position - Net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. MOPERM does not have restricted net position as of December 31, 2017 and 2016.

Unrestricted net position - Consists of all other net position that does not meet the definition of the above two components and is available for general use by MOPERM. MOPERM considers unrestricted net position as undeclared retro return reserves which may be declared by the board at a future date. MOPERM has designated unrestricted net position for catastrophic reserves in the amount of \$42,540,944 and \$39,822,236 as of December 31, 2017 and 2016, respectively.

Contributions

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are determined based on actuarial projections to produce sufficient funds to pay losses, loss adjustment expense and general and administrative expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM. No special assessments were made during 2017 or 2016.

Accounts Receivable

Accounts receivable are recorded at net realizable value. Management has evaluated all receivable balances for collectability and determined no estimate or allowance for uncollectable accounts is necessary.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Retro Return Reserve Refunds

If collected contributions and interest income exceed the total amount of all paid claims, claim expenses, operating expenses, and the catastrophic retro return reserves allocation in any given year, the Board of Trustees may declare that a refund of the excess amount be made. The refund shall be on a pro rata basis to all participating public entities based on the contributions of the public entity for the immediately preceding year. Unless otherwise determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared; however, MOPERM's Board of Trustees has the ability to amend prior declarations prior to payment. The effect of any board approved amendments made to the original declarations are reported during the year they are incurred.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported, and are reported net of amounts recoverable and receivable from excess loss providers. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported unpaid loss reserves within the statement of net position.

The methods for making such estimates and for establishing the resulting liability are continually reviewed by management and MOPERM's independent actuary and any adjustments are reflected in earnings.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Designated Catastrophic Reserves

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balances at December 31 for policy years 2006 through 2010 is equivalent to 10% of the earned contribution and 15% of the earned contribution for all policy years since MOPERM's inception minus \$1,545,447 for policy year 2002; plus any undesignated retro return reserves of a policy year that is twenty years old. The total of these reserves at December 31, 2017 and 2016, is \$500,685 and \$62,115. During 2005, the Board of Trustees approved the transfer of the catastrophic reserves for policy year 2002 to the Undesignated Retro Return Reserves. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments could be made to applicable members for the policy year the losses occurred.

Operating and Non-operating Income and Expenses

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

Income Taxes

The income earned by MOPERM is exempt from federal income tax in accordance with Section 115 of the Internal Revenue Code (IRC).

MOPERM has implemented the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740, Income Taxes. MOPERM has concluded that there are no significant uncertain tax positions requiring disclosure. MOPERM continues to evaluate its tax exempt status in relation to FASB ASC 740.

Management's Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

Retirement Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri State Employees' Retirement System (MOSERS) and additions to/deductions from MOSERS' fiduciary net position have been determined on the same basis as they are reported by MOSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Subsequent Events

MOPERM evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 20, 2018, which is the date the financial statements were available to be issued.

Change in Accounting Principle and New Accounting Pronouncement

Effective for year ended December 31, 2016, MOPERM adopted GASB Statement No. 72, Fair Value Measurement and Application, which intends to improve financial reporting by requiring governments to account and report utilizing a consistent and more detailed definition of fair value and accepted valuation techniques. Adoption resulted in additional note disclosures in Note C to display investments by the category of measurement hierarchy.

Note C – Deposits and Investments

Deposits

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2017 and 2016, the carrying amount of deposits at the financial institutions was (\$276,087) and \$273,745, the bank balance was \$6,427 and \$483,837. Of the bank balance, \$250,000 was covered by federal depository insurance at December 31, 2017 and 2016.

Investment Policies

MOPERM has adopted an investment policy that is reviewed and approved by the Board of Trustees. During 2015, MOPERM's Board of Trustees amended the existing investment policy to include a multi-asset class portfolio permitting Fixed Income Mutual Funds and ETFs, Equity Mutual Funds and ETFs and Alternative Asset Class Mutual Funds and ETFs of REITs and Inflation Hedging Assets.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note C – Deposits and Investments (Continued)

Investment Summary

The following table presents the summary of MOPERM'S investments by type at December 31, 2017 and 2016:

Cash Equivalents	<u>2017</u>	<u>2016</u>
Investaccount-Government	\$ 9,590,240	\$ 9,387,442
Government Obligation Fund-Money Market	1,329,064	2,103,926
Total Cash Equivalents	10,919,304	11,491,368
 Fixed Income Securities		
Certificate of Deposit	7,576,128	6,500,615
Commercial Paper	997,935	1,988,726
Corporate Notes	30,360,073	27,122,079
Municipal Bonds	1,999,156	2,010,186
U.S. Agencies	7,786,828	4,610,978
U.S. Treasury Notes	13,348,703	28,563,993
U.S. Government Guaranteed Mortgages	9,135,584	11,260,474
Collateralized Mortgage Obligations	8,474,714	11,762,283
Asset-Backed Securities	7,273,695	4,996,147
Total Fixed Income Securities	86,952,816	98,815,481
 Equity Securities	<u>27,092,272</u>	<u>17,175,531</u>
Total investments	\$ <u>114,045,088</u>	\$ <u>127,482,380</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MOPERM would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, not registered in MOPERM's name, and held by the counterparty. The Investaccount-Government was collateralized by securities delivered to a third party institution mutually agreed upon by the financial institution and MOPERM. MOPERM's other investments are not exposed to custodial credit risk.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note C – Deposits and Investments (Continued)

Concentration of Credit Risk

There is potential concentration of credit risk if more than five percent (5%) of the entity's investments are with any one issuer. The following investments are considered exposed to concentration of credit risk as of December 31, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% of Portfolio</u>	<u>Amount</u>	<u>% of Portfolio</u>
U.S. Treasury	\$13,348,703	11.70	\$28,563,993	24.63
Federal Home Loan Mortgage Corporation	-	-	-	-
Federal Home Loan Bank	-	-	-	-
Federal National Mortgage Association	18,797,845	16.48	18,426,865	15.89

Such concentrations are permitted by MOPERM's investment Policy.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instrument's full price. MOPERM mitigates interest rate risk through the duration of investments outlined in its investment policy.

Foreign Currency Risk

MOPERM is not exposed to foreign currency risks.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note C – Deposits and Investments (Continued)

Investment Maturity Schedule

Investments are reported at fair value. Investments that are purchased with less than 90 days maturity date are listed as "cash equivalents". As of December 31, 2017 and 2016, MOPERM's investment maturities consisted of the following:

<u>December 31, 2017</u>	<u>Rating</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>	<u>Five to ten years</u>	<u>More than ten years</u>	<u>Total</u>
Investaccount-Government	N/A	\$ 9,590,240	\$ -	\$ -	\$ -	\$ -	\$ 9,590,240
Money Market-Government	N/A	1,329,064	-	-	-	-	1,329,064
Asset-Backed Securities	Aaa/AAA	-	3,343,163	3,036,221	894,311	-	7,273,695
Certificate of Deposit	A-1	-	6,591,711	984,417	-	-	7,576,128
Collateralized Mortgage Obligations	Aaa/AA+	43,987	1,956,990	667,357	1,443,665	4,362,715	8,474,714
Commercial Paper	A-1	997,935	-	-	-	-	997,935
Municipal Bond	AA	-	1,999,156	-	-	-	1,999,156
U.S. Agencies	Aaa/AA+	-	7,786,828	-	-	-	7,786,828
U.S. Government Guaranteed Mortgages	Aaa/AA+	-	1,877,819	1,102,516	1,384,471	4,770,778	9,135,584
U.S. Treasury Notes	Aaa/AA+	-	4,512,424	3,793,399	5,042,880	-	13,348,703
Corporate Note	Aaa/BBB+	-	4,986,822	15,861,021	7,260,639	2,251,591	30,360,073
		<u>\$ 11,961,226</u>	<u>\$ 33,054,913</u>	<u>\$ 25,444,931</u>	<u>\$ 16,025,966</u>	<u>\$ 11,385,084</u>	<u>\$ 97,872,120</u>

<u>December 31, 2016</u>	<u>Rating</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>	<u>Five to ten years</u>	<u>More than ten years</u>	<u>Total</u>
Investaccount-Government	N/A	\$ 9,387,442	\$ -	\$ -	\$ -	\$ -	\$ 9,387,442
Money Market-Government	N/A	2,103,926	-	-	-	-	2,103,926
Asset-Backed Securities	Aaa/AAA	-	1,900,588	3,095,559	-	-	4,996,147
Certificate of Deposit	A-1	6,500,615	-	-	-	-	6,500,615
Collateralized Mortgage Obligations	Aaa/AA+	962,199	2,660,294	-	2,519,593	5,620,197	11,762,283
Commercial Paper	A-1	1,988,726	-	-	-	-	1,988,726
Municipal Bond	AA	2,591,898	7,285,073	12,079,620	5,165,488	-	27,122,079
U.S. Agencies	Aaa/AA+	-	-	2,010,186	-	-	2,010,186
U.S. Government Guaranteed Mortgages	Aaa/AA+	606,877	291,174	3,712,927	-	-	4,610,978
U.S. Treasury Notes	Aaa/AA+	-	-	1,940,285	1,678,909	7,641,280	11,260,474
Corporate Note	Aaa/BBB+	-	-	21,824,665	6,739,328	-	28,563,993
		<u>\$ 24,141,683</u>	<u>\$ 12,137,129</u>	<u>\$ 44,663,243</u>	<u>\$ 16,103,317</u>	<u>\$ 13,261,477</u>	<u>\$ 110,306,849</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note C – Deposits and Investments (Continued)

Fair Value Measurement

MOPERM categorizes its fair value measurements with the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurements and Application*. Certain financial assets are valued using market prices from active markets (level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily-observable inputs of the instrument. Level 3 instrument valuations are done primarily with unobservable inputs which are significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value as of December 31, 2017:

Level 1 Measurements

U.S. treasury securities and equity securities: Valued at closing price reported on the active market in which the individual securities are traded.

Level 2 Measurements

Certificate of deposit, commercial paper, corporate notes, municipal bonds, U.S. agencies, and asset backed securities: Valued using broker-provided quotations from pricing services, such as Interactive Data Corporation, with all significant inputs derived from or corroborated with observable market data.

Mortgage backed securities: Principally valued using either the market approach, which uses prices and other relevant information generated by market transactions for similar assets, or the income approach, which uses valuation techniques to convert future estimated cash flows to a discounted present value amount. The valuation of these securities is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected payment speeds and volumes, current and forecasted loss severity, rating, weighted average coupon, weighted average maturity, average delinquency rates.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note C – Deposits and Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, MOPERM's investments:

	Fair Value Measurement at Report Date Using			
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2017	Fair Value			
Fixed Income Securities				
Certificate of Deposit	\$ 7,576,128	\$ -	\$ 7,576,128	\$ -
Commercial Paper	997,935	-	997,935	-
Corporate Notes	30,360,073	-	30,360,073	-
Municipal Bonds	1,999,156	-	1,999,156	-
U.S. Agencies	7,786,828	-	7,786,828	-
U.S. Treasury Notes	13,348,703	13,348,703	-	-
U.S. Government Guaranteed Mortgages	9,135,584	-	9,135,584	-
Collateralized Mortgage Obligations	8,474,714	-	8,474,714	-
Asset-Backed Securities	7,273,695	-	7,273,695	-
Total Fixed Income Securities	86,952,816	13,348,703	73,604,113	-
Equity Securities	27,092,272	27,092,272	-	-
Total investments	\$ 114,045,088	\$ 40,440,975	\$ 73,604,113	\$ -

	Fair Value Measurement at Report Date Using			
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2016	Fair Value			
Fixed Income Securities				
Certificate of Deposit	\$ 6,500,615	\$ -	\$ 6,500,615	\$ -
Commercial Paper	1,988,726	-	1,988,726	-
Corporate Notes	27,122,079	-	27,122,079	-
Municipal Bonds	2,010,186	-	2,010,186	-
U.S. Agencies	4,610,978	-	4,610,978	-
U.S. Treasury Notes	28,563,993	28,563,993	-	-
U.S. Government Guaranteed Mortgages	11,260,474	-	11,260,474	-
Collateralized Mortgage Obligations	11,762,283	-	11,762,283	-
Asset-Backed Securities	4,996,147	-	4,996,147	-
Total Fixed Income Securities	98,815,481	28,563,993	70,251,488	-
Equity Securities	17,175,531	17,175,531	-	-
Total investments	\$ 115,991,012	\$ 45,739,524	\$ 70,251,488	\$ -

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note C – Deposits and Investments (Continued)

Gains (Losses) on Investments

Net unrealized gains on investments classified as trading assets held at the reporting date were \$4,177,452 and \$804,892 for the year ended December 31, 2017 and 2016, respectively. Net realized gains on assets sold or otherwise disposed of, and included within net investment income, amounted to \$185,554 in 2017 and \$106,335 in 2016.

Note D – Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

<u>Category</u>	Balance at December 31, <u>2016</u>	<u>Additions</u>	<u>Deductions/ Transfers</u>	Balance at December 31, <u>2017</u>
Capital assets, being depreciated				
Building and building improvements	\$ 1,172,339	\$ -	\$ -	\$ 1,172,339
Equipment	28,708	-	-	28,708
Furniture and fixtures	94,810	-	-	94,810
Computer equipment and software	680,836	3,762	-	684,598
Automobiles	31,975	-	-	31,975
Total capital assets, being depreciated	2,008,668	3,762	-	2,012,430
Less accumulated depreciation	1,128,532	(79,493)	-	1,208,025
Capital assets, net	\$ 880,136	\$ (75,731)	\$ -	\$ 804,405

Capital asset activity for the year ended December 31, 2016, was as follows:

<u>Category</u>	Balance at December 31, <u>2015</u>	<u>Additions</u>	<u>Deductions/ Transfers</u>	Balance at December 31, <u>2016</u>
Capital assets, being depreciated				
Building and building improvements	\$ 1,172,339	\$ -	\$ -	\$ 1,172,339
Equipment	26,318	2,930	540	28,708
Furniture and fixtures	93,148	1,662	-	94,810
Computer equipment and software	680,836	-	-	680,836
Automobiles	31,975	-	-	31,975
Total capital assets, being depreciated	2,004,616	4,592	540	2,008,668
Less accumulated depreciation	993,200	(135,872)	540	1,128,532
Capital assets, net	\$ 1,011,416	\$ (131,280)	\$ -	\$ 880,136

Total depreciation expense for the years ended December 31, 2017 and 2016, was \$79,493 and \$135,872.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note E – Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves was as follows:

	<u>2017</u>	<u>2016</u>
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$123,143 in 2017 and \$143,017 in 2016	\$ 53,584,795	\$ 44,808,742
Incurred loss and loss adjustment expenses:		
Provision for insured events – current year	23,300,405	23,274,467
Provision for insured events – prior years	<u>16,567,112</u>	<u>(130,225)</u>
Total incurred loss and loss adjustment expenses	<u>39,867,517</u>	<u>23,144,242</u>
Payments:		
Loss and loss adjustment expenses attributable to insured events – current year	6,148,203	4,098,633
Loss and loss adjustment expenses attributable to insured events – prior years	<u>17,503,664</u>	<u>10,269,556</u>
Total payments	<u>23,651,867</u>	<u>14,368,189</u>
Loss and loss adjustment expenses reserves, end of year, net of reinsurance recoverable of \$583,811 in 2017 and \$123,143 in 2016	<u>\$ 69,800,445</u>	<u>\$ 53,584,795</u>

The provision for prior year insured events represents the variations between MOPERM's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

Note F – General and Administrative Expenses

The most significant components of general and administrative expenses are salary, employee benefit, agent commission, and loss control services expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement System. MOPERM reimburses the State of Missouri, a related organization, for all costs of administration, including salary costs of \$628,739 for 2017 and \$741,713 for 2016 and pension costs of \$112,079 for 2017 and \$112,286 for 2016. As of December 31, 2017 and 2016, payables due to the State of Missouri totaled \$110,599 and \$123,373, respectively. The State of Missouri's other post-employment benefit package is subject to the measurement and disclosure requirements of GASB 45.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note F – General and Administrative Expenses (Continued)

Effective during the 2008 year, the amounts paid to the State of Missouri include a contribution allocation to reimburse the State for the funding of the post-retirement health insurance liability. This liability is recognized in total by the State of Missouri. MOPERM's financial statements reflect their allocated share of funding requirement.

Agent commission expense totaled \$1,697,412 and \$1,631,091 for the years ended December 31, 2017 and 2016, respectively.

Note G – Retro Return Reserve Refunds

The Board of Trustees of MOPERM did not declare retro return reserve refunds for 2017. The Board did declare refunds in the amount of \$983,698 in September of 2016, but due to the adverse development on claims at the end of 2016, the Board reduced the amount of refunds to \$526,102. As of December 31, 2017, cumulative retro return reserve refunds were as follows:

<u>Policy Year</u>		<u>Prior Refunds Declared and Paid</u>	<u>Refunds Declared and Accrued During 2017</u>	<u>Total Refunds Declared</u>	<u>Percentage of Contributions Refunded</u>
1987	\$	1,391,082	\$ -	\$ 1,391,082	85%
1988		2,074,331	-	2,074,331	76%
1989		519,031	-	519,031	23%
1990		933,499	-	933,499	45%
1991		270,627	-	270,627	12%
1992		825,298	-	825,298	28%
1993		45,879	-	45,879	1%
1994		155,373	-	155,373	3%
1995		2,786,059	-	2,786,059	47%
1996		1,456,194	-	1,456,194	23%
1997		1,048,002	-	1,048,002	15%
1998		399,664	-	399,664	6%
1999		260,176	-	260,176	4%
2000		211,403	-	211,403	3%
2001		337,970	-	337,970	4%
	\$	<u>12,714,588</u>	\$ <u>-</u>	\$ <u>12,714,588</u>	

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note H – Excess Insurance

MOPERM maintains excess insurance coverage with outside insurance carriers for the property program. The property excess policy for 2017 and 2016 was placed with multiple carriers and they collectively provided coverage of \$200,000,000 for each occurrence, with MOPERM's retention per claim of \$100,000. For 2017 and 2016, the equipment breakdown excess policy, provides coverage of \$100,000,000 for each occurrence with no annual aggregate and MOPERM had a \$10,000 deductible per occurrence. MOPERM added cyber and information breach insurance coverage to its product offerings during the 2017 fiscal year. For 2017 and 2016, MOPERM carried no excess insurance coverage for crime.

On October 31, 2017, MOPERM purchased an annual liability reinsurance policy with ACE American Insurance Company. ACE American Insurance Company shall not be liable for more than \$1,500,000 in net losses per occurrence. MOPERM's retention per occurrence was \$500,000 with a \$500,000 annual aggregate. MOPERM had not purchased a liability excess insurance policy for liability coverage since July 7, 2002.

Note I – Condominium Association

On February 4, 2005, MOPERM purchased an office condominium in the Howerton Center Condominium. In conjunction with the purchase, MOPERM became a one-third member of The Howerton Center Condominium Association, Inc. (Corporation). The Corporation is a Mutual Benefit Corporation formed for the purpose of maintaining the common areas in The Howerton Center Condominium and performing all other duties set forth in the Declaration of Condominium. MOPERM previously contributed \$1,000 to the Corporation for operating funds. MOPERM is billed utilities, insurances and other expenditures by the Corporation as outlined in the Corporation's Condominium Declarations and Bylaws. MOPERM records such expenditures on the accrual basis of accounting as general and administrative expenses.

Note J – Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. While the results of other litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of the other litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note K – Retirement Plan

General Information About the Pension Plan

Plan description: Benefit eligible employees of MOPERM are provided with pensions through Missouri State Employees' Plan (MSEP) – a cost-sharing multiple-employer defined benefit pension plan administered by the Missouri State Employers' Retirement System ("MOSERS"). The plans are referred to as MOSERS in the notes. Chapter 104.320 of the Revised Statutes of Missouri grants the authority to establish a defined benefit plan for eligible state and other related agency employees. MOSERS issues an annual Comprehensive Annual Financial Report (CAFR), a publicly available financial report that can be obtained at www.mosers.org.

Benefits provided: MOSERS provides retirement, disability, and life insurance benefits to eligible employees. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. The factor is based on the specific plan in which the employee participates, which is based on the employee's hire date. Information on the three plans administered by MOSERS (MSEP, MSEP 2000, and MSEP2011 retirement plans) and how eligibility and the benefit amount is determined for each plan may be found in the Notes to the Financial Statements of MOSERS' CAFR starting on page 28.

Contributions: Per Section 104.436, RSMo, contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. Employees in the MSEP2011 Plan are required to contribute 4.0 percent of their annual pay. MOPERM's required contribution rate for the measurement date of June 30, 2017, was 19.45 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The contribution rate for the MOSERS plan year ended June 30, 2017, was 19.45 percent, which is the year of measurement for the net pension liability. Contributions to the pension plan from MOPERM were \$110,353 for the measurement date of June 30, 2017.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note K – Retirement Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, MOPERM reported a liability of \$1,720,313 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

MOPERM's proportion of the net pension liability was based on MOPERM's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for MOSERS plan year ended June 30, 2017. At June 30, 2017 measurement date, MOPERM's proportion was 0.033, which represents a .001 decrease from the percentage used to allocate the liability as of June 30, 2016.

There were no changes in benefit terms during the MOSERS plan year ended June 30, 2017, that affected the measurement of total pension liability.

For the year ended December 31, 2017, MOPERM recognized pension expense of \$286,307. At the measurement date of June 30, 2017, MOPERM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,531	\$ 27,094
Changes of assumptions	150,955	4,318
Net difference between projected and actual earnings on pension plan investments	344,962	56,784
Changes in proportion and differences between MOPERM contributions and proportionate share of contributions	12,992	44,705
MOPERM contributions subsequent to the measurement date of June 30, 2017	57,496	-
Total	<u>\$ 575,936</u>	<u>\$ 132,901</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note K – Retirement Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Contributions of \$57,496 reported as deferred outflows of resources related to pensions resulting from MOPERM contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability at the next valuation date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in MOPERM's calendar year end December 31, 2017 following MOSERS' fiscal year as follows:

Projected Recognition of Outflows/ (Inflows)

Plan Year ending June 30:

2018	\$ 129,471
2019	168,686
2020	65,487
2021	21,896
2022	-
Thereafter	-

Actuarial assumptions: The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report, performed by the prior actuary, is dated March 30, 2016. The only change in actuarial assumptions and methods was the lowering of the annual investment rate of return from 7.65 percent to 7.50 percent.

The total pension liability in the June 30, 2017, actuarial valuation, which is also the date of measurement for GASB 68 purposes, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	2.5 %
Salary increases or wage inflation	3.0% to 5.2% including inflation
Wage inflation	3.0%
Investment rate of return	7.50%, compounded annually, net of investment expenses.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note K – Retirement Plan (Continued)

Mortality rates for post-retirement mortality were based on the RP-2014 Healthy Annuitant mortality table, projected from 2006 to 2026 with Scale MP-2015 and scaled by 98%. The pre-retirement mortality rates used were the RP-2014 Employee mortality table, projected from 2006 to 2026 with Scale MP-2015.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report, performed by the prior actuary, is dated March 30, 2016. The only valuation change for June 30, 2017, was lowering the assumed annual investment rate of return from 7.65 percent to 7.50 percent. The changes in assumptions recorded as deferred inflows and outflows of resources were due to these changes from the actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS target asset allocation as of June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Policy Allocation</u>	<u>Long-term Expected Real Rate of Return *</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Opportunistic global equities	38.0%	5.5%	2.1%
Nominal bonds	44.0	1.0%	0.5
Commodities	20.0	4.5%	0.9
Inflation-linked bonds	39.0	0.8%	0.3
Alternative beta **	31.0	4.5%	1.4
	<u>172.0%</u>		<u>5.2%</u>

* Represent best estimates of geometric rates of return for each major asset class included.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2017 and 2016

Note K – Retirement Plan (Continued)

Discount rate: The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the MOPERM's proportionate share of the net pension liability to changes in the discount rate: The following presents MOPERM's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what MOPERM's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease	Current	1% Increase
	<u>(6.50%)</u>	<u>(7.50%)</u>	<u>(8.50%)</u>
MOPERM's proportionate share of the net pension liability	\$ 2,214,943	\$ 1,720,313	\$ 1,304,269

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued MOSERS financial report.

Payable to the Pension Plan

MOPERM did not report any payables to MOSERS.

Required Supplemental Information

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Supplemental Schedule of 2008-2017 Loss Development Information

December 31, 2017

(See Independent Auditor's Report)

The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2017. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) The cumulative net amounts paid as of the end of successive years for each policy year.
- (5) The latest re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (6) Each policy years incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (7) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of loss cost are greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Supplemental Schedule of 2008-2017 Loss Development Information, Continued

Years ended December 31, 2017 and 2016

(See Independent Auditor's Report)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fiscal year ended:										
(1) Contribution and investment revenue:										
Earned	26,430,915	22,681,440	21,232,605	19,366,692	19,309,387	20,402,355	21,779,552	21,991,334	22,508,769	23,607,351
Ceded	(1,170,558)	(1,119,946)	(1,273,174)	(1,447,161)	(1,639,866)	(1,744,482)	(1,852,432)	(1,916,934)	(1,700,131)	(2,522,207)
Net earned	25,260,357	21,561,494	19,959,431	17,919,531	17,669,521	18,657,873	19,927,120	20,074,400	20,808,638	21,085,144
(2) Unallocated expenses	3,159,917	2,624,008	2,504,618	2,366,185	2,489,258	2,669,851	2,962,782	3,051,943	3,176,652	3,295,614
Policy year ended:										
(3) Contribution refunds, cumulative	-	-	-	-	-	-	-	-	-	-
(3) Estimated incurred loss and loss adjustment expense, end of policy year:										
Incurred	16,096,860	13,351,739	12,505,206	12,233,711	10,763,247	11,666,726	12,436,173	12,955,049	23,377,682	21,735,197
Ceded	(585,795)	(398,943)	(286,666)	(753,284)	(101,048)	(308,872)	(138,327)	(674,060)	(103,215)	(1,565,208)
Net incurred	15,511,065	12,952,796	12,218,540	11,480,427	10,662,199	11,357,854	12,297,846	12,280,989	23,274,467	20,169,989
(4) Net paid losses (cumulative) as of:										
End of policy year	3,244,802	2,734,679	3,126,561	5,385,430	2,954,358	2,953,383	3,429,124	3,745,745	3,995,418	4,582,995
One year later	5,138,156	4,311,864	5,182,373	7,166,940	4,088,118	4,271,256	5,556,737	5,120,963	5,883,568	-
Two years later	7,013,470	5,188,008	6,541,593	10,392,180	6,657,025	6,913,884	8,849,610	8,664,274	-	-
Three years later	8,082,239	8,445,272	7,880,273	14,727,920	8,397,325	9,368,411	13,414,187	-	-	-
Four years later	8,891,913	9,114,240	8,678,272	15,693,487	9,217,546	11,581,950	-	-	-	-
Five years later	9,578,358	9,446,530	9,648,147	16,001,183	12,447,819	-	-	-	-	-
Six years later	9,791,716	10,021,237	10,245,215	16,204,081	-	-	-	-	-	-
Seven years later	9,924,396	10,364,483	13,071,027	-	-	-	-	-	-	-
Eight years later	9,962,811	10,538,334	-	-	-	-	-	-	-	-
Nine years later	10,381,595	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded loss and loss adjustment expense	(1,017,820)	(732,765)	(334,886)	(1,266,160)	(273,511)	(558,925)	(350,689)	(788,638)	(170,986)	(1,565,208)
(6) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	15,511,065	12,952,796	12,218,540	11,174,983	10,662,199	11,357,854	12,297,846	12,280,989	23,274,467	20,169,989
One year later	15,186,111	12,798,194	12,143,246	12,396,804	10,656,543	11,255,187	12,250,430	12,372,649	27,565,422	-
Two years later	15,226,953	12,798,195	12,145,377	14,399,011	10,654,114	11,247,424	17,687,310	18,305,431	-	-
Three years later	15,226,953	12,798,194	12,145,007	14,399,011	13,932,748	13,780,962	22,538,991	-	-	-
Four years later	15,226,953	12,798,195	12,143,487	17,020,515	13,932,748	16,032,996	-	-	-	-
Five years later	15,226,953	12,798,195	12,143,487	17,020,515	13,932,747	-	-	-	-	-
Six years later	15,226,953	12,798,195	12,870,664	16,953,529	-	-	-	-	-	-
Seven years later	15,226,953	12,798,195	13,597,841	-	-	-	-	-	-	-
Eight years later	11,734,750	12,798,194	-	-	-	-	-	-	-	-
Nine years later	13,388,952	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year	(2,122,113)	(154,602)	1,379,301	5,778,546	3,270,548	4,675,142	10,241,145	6,024,442	4,290,955	-

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Reconciliation of Claims Liabilities by Type of Contract

Years ended December 31, 2017 and 2016

(See Independent Auditor's Report)

The schedule below presents the changes in claims liabilities for the past two years for the fund's two types of contracts:

Liability and Property

	<u>Liability</u>		<u>Property</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Loss and loss adjustment expense reserves, beginning of year	\$ 53,377,742	\$ 44,645,411	\$ 207,053	\$ 163,331
Incurred loss and loss adjustment expenses:				
Provision for insured events - current year	18,426,327	22,098,547	4,874,078	1,175,920
Provision for insured events - prior year	19,847,269	(218,999)	(3,280,157)	88,774
Total incurred loss and loss adjustment expenses	<u>38,273,596</u>	<u>21,879,548</u>	<u>1,593,921</u>	<u>1,264,694</u>
Payments:				
Loss and loss adjustment expenses attributable to insured	3,102,046	3,023,682	3,046,157	1,074,951
Loss and loss adjustment expenses attributable to insured	19,011,561	10,123,535	(1,507,897)	146,021
Total payments	<u>22,113,607</u>	<u>13,147,217</u>	<u>1,538,260</u>	<u>1,220,972</u>
Loss and loss adjustment expense reserves, end of year	<u>\$ 69,537,731</u>	<u>\$ 53,377,742</u>	<u>\$ 262,714</u>	<u>\$ 207,053</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Schedule of MOPERM's Proportionate Share of the Net Pension Liability Missouri State Employees' Retirement System

As of December 31, 2017

(See Independent Auditor's Report)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
MOPERM's proportion of the net pension liability (asset)	.0350%	.0340%	.033%
MOPERM's proportionate share of the net pension liability (asset)	\$1,138,251	\$1,579,883	\$1,720,313
MOPERM's covered-employee payroll	\$ 686,195	\$ 659,145	\$ 650,280
MOPERM's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	165.88%	239.69%	264.55%
Plan fiduciary net position as a percentage of the total pension liability	72.62%	63.60%	60.41%

* Based on a measurement date and actuarial valuation as of June 30, 2017.

Note: This schedule will ultimately contain 10 years of data.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Schedule of MOPERM's Contributions Missouri State Employees' Retirement System

As of December 31, 2017

(See Independent Auditor's Report)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Required contribution	\$ 116,447	\$ 111,857	\$ 110,353
Contributions in relation to the required contribution	\$ 116,447	\$ 111,857	\$ 100,353
Contribution deficiency (excess)	-	-	-
MOPERM's covered-employee payroll	\$ 686,195	\$ 659,145	\$ 650,280
Contributions as a percentage of covered-employee payroll	16.97%	16.97%	16.97%

* Based on a measurement date and actuarial valuation as of the end of June 30, 2017.

Note: This schedule will ultimately contain 10 years of data.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Changes of Benefit Terms or Assumptions Missouri State Employees' Retirement System

December 31, 2017

(See Independent Auditor's Report)

Changes of benefit terms or assumptions:

Changes of benefit terms. For the year ended June 30, 2017, there was one benefit change to be recognized. Senate Bill 62 made several changes to the MSEP 2011 benefit provisions. There were no changes in the benefit terms since the Prior Measurement Date.

Changes of assumptions. The long-term rate of return on investments assumption was changed from 7.65 percent to 7.50 percent.